

## **The poisoned legacy: data response answers**

### **1. (a) Explain the meaning of the following terms:**

#### **(i) Fiscal stimulus**

**2 marks**

1 *Vague definition*

Related to taxation and government spending

**1 mark**

2 *Precise definition*

An expansionary policy designed to stimulate aggregate demand through lower taxes and an increase in government spending

**2 marks**

#### **(ii) recession**

**2 marks**

1 *Vague definition*

When an economy contracts

**1 mark**

2 *Precise definition*

When an economy contracts or experiences falling economic output (RGDP) for a period of two consecutive quarters

**2 marks**

### **(c) Using an appropriate diagram, explain how the Recovery Act signed in Feb 2009 helped lift the U.S. economy out of recession**

**4 marks**

1 *Identification of appropriate theory*

For identifying that the Recovery Act involved tax cuts which stimulated consumption and investment and an increase in government spending, therefore leading to an increase in AD and subsequent increase in output **OR** for drawing an AD/AS diagram showing a shift out of the AD curve and subsequent increase in real output.

**1-2 marks**

2 *Correct application of appropriate theory*

For identifying that the Recovery Act involved tax cuts which stimulated consumption and investment and an increase in government spending, therefore leading to an increase in AD and subsequent increase in output **AND** for drawing an AD/AS diagram showing a shift out of the AD curve and subsequent increase in real output.

**3-4 marks**

### **(d) Using an appropriate diagram, explain what type of unemployment the U.S. is experiencing**

**4 marks**

1 *Identification of appropriate theory*

For explaining that the U.S. has just recovered from a period of recession when there was a lack of Aggregate Demand in the economy and therefore a fall in the demand for labour. Therefore the U.S. is experiencing demand deficient (cyclical) unemployment **OR** by drawing a labour market diagram showing a fall in AD for labour and the market failing to clear at the new equilibrium wage rate.

**1-2 marks**

3 *Correct application of appropriate theory*

For explaining that the U.S. has just recovered from a period of recession when there was a lack of Aggregate Demand in the economy and therefore a fall in the demand for labour. Therefore the U.S. is experiencing demand deficient (cyclical) unemployment **AND** by drawing a labour market diagram showing a fall in AD for labour and the market failing to clear at the new equilibrium wage rate. **3-4 marks**

d) Using information from the text and your knowledge of economics, **evaluate** the opinion that the fiscal stimulus bill failed. **8 marks**

Answers may contain:

- Theoretical impact of fiscal stimulus on AD and output (as in question b)
- Formally the recession ended a year ago
- However, unemployment remains high- not enough jobs have been created
- The bill was perhaps too small
- Banks are not lending and consumer confidence is low
- May work with more rigorous application of monetary and supply side policies

Evaluation could examine the short term and long term consequences, advantages and disadvantages or the impact on various stakeholders

Examiners should be aware that candidates may take a different approach which if appropriate should be fully rewarded. If there is no direct reference to the data, then candidates may not be rewarded beyond Level 2.

**Level**

0	No valid discussion.	<b>0</b>
1	Few relevant concepts recognized. Little discussion or only basic understanding.	<b>1-2</b>
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	<b>3-5</b>
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	<b>6-8</b>